

SBIR Newsletter September 2002

- **Feature Story:** Setting up a Financial Accounting System for Your SBIR Grant
- **Competition Tips:** Rand Swanson, Resonon, Bozeman, MT Experience the Best Teacher
- **Workshops:** Check out the SBIR proposal-writing and commercialization workshops.
- 2nd Annual SBIR Conference be to be held October 30, 2002, Miles City, MT

If you have questions or subjects you would like covered, please contact [Linda Brander](#), SBIR Outreach Coordinator or call (406) 841-2749.

1.0 Setting up a Financial Accounting System for Your SBIR Grant

Back to Business: Managing your SBIR Grant

Bean counters just don't have the pizzazz that inventors and entrepreneurs do. Still, it would be foolish to underestimate their role in your long-term success. Even the most innovative technology can flop if your business suffers from poor financial management.

Setting up a sound financial management system can be even more challenging for SBIR grantees than for typical start-ups given the federal accounting requirements. "The federal government has a specific accounting model for government contracts to ensure that the funds are being used correctly," explains Marti Elder, a marketing and management services consultant and principal of Marti Elder LLC, Bozeman. "There will be a learning curve for people who haven't had government contract experience, even among people who have considerable accounting expertise."

There are three important stages in financial management of an SBIR grant.

1. Create a defensible budget

When writing your SBIR proposal, the budget should be the last thing you do but one of the first things you think about. "Every single element in your SBIR work plan has a cost associated with it. While you won't separate out all of these costs in the agency budget form, you need to understand and pay attention to them. If you do, by the time you're done writing the proposal, you can pull your budget together pretty quickly," Elder says.

That said, your budget still has to follow the rules. The Federal Acquisition Regulation (FAR) specifies what costs are allowed, distinguishing between direct and indirect costs (see Resources section for FAR web site).

Direct costs are the actual costs of the scope of work described in your SBIR proposal. Indirect costs are those that support your ability to complete the project, such as

telephone service, administrative salaries and the lease of office space. “This can be a gray area for small businesses that have only one project,” Elder says. “To clarify the difference, assume you pick up another project. You would then view each of the projects as separate direct cost centers. Your expenses that support all of the projects are your indirect costs.”

Some SBIR candidates avoid the confusion by just not including indirect costs in their budgets. This can come back to bite you if you advance to a Phase II grant. It is hard to justify indirect costs in the second round if you've set the precedence of not including them in Phase I.

The same is true for fees. The government allows you to include a fee percentage in your budget, but some SBIR candidates don't request it. “This is a mistake,” Elder says. “Your fee is your profitability. In addition, the funds can be used any way you want, so your fee can help support some of the costs that aren't allowed under a federal contract. ”

Again, Phase II is often the bigger issue. With a proposed Phase I budget of \$100,000, a standard 5 percent fee isn't crucial. But your Phase II budget might be \$750,000, making your fee a substantial funding source for nonallowable costs.

There can be months between the time you prepare and submit your proposal and budget and when your granting agency awards your contract. Elder recommends keeping a folder with documentation of all of your costs so that you can defend them when your agency asks you about your budget. For instance, photocopy catalog listings of the equipment and supplies you're going to need and put the copy in the folder.

2. Manage contract funds

The best way to manage your contract funds is to set up a system that follows the federal model from the start. You can purchase government accounting software, which it is very expensive, or buy plug-ins to adapt standard accounting software such as Peachtree and QuickBooks. Another option is bringing in a consultant to convert your conventional bookkeeping system. You can also attend SBIR financial workshops or make use of the many online resources. (see Resources). The Defense Contract Audit Agency's manual, for instance, is available online. “It is a great resource, although the language is somewhat difficult,” Elder says.

In addition to setting up a proper accounting system, you need to be sure that you pace yourself in spending your SBIR grant so you don't find yourself underfunded at the end. To avoid that, rather than viewing budget areas as lump sums, break down the budget into specific tasks and track spending as you go.

3. Prepare to be audited

Your federal granting agency will likely audit your records at the end of your granting phase. Depending on the agency, audits can range from a phone interview to a visit from

the Defense Contract Audit Agency. But if your project records are complete and you've followed other good accounting practices, the audit shouldn't be a problem. "Good documentation is essential," Elder says. "The key is to keep your systems simple and operable so that you really do maintain them on a regular basis. Don't wait until the end of the project."

2.0 Competition Tips: Experience Guides Rand Swanson's Business Success

There's no better teacher than experience. Just ask Rand Swanson, past president and cofounder of AdvR Inc., Bozeman. He left AdvR earlier this year, spinning off some of the company's photonics technology to start Resonon Inc. The new Bozeman-based company is in the process of applying for several SBIR grants.

Resonon is just getting on its feet. Although the company is young, Swanson is doing his best to ensure that it starts strong by reaping the benefits of the business knowledge he gained at AdvR. Swanson offers two significant tips for other SBIR candidates just getting started.

- Get accounting expertise on board as soon as possible. "The first SBIR company I worked with was in Colorado. The accounting was already in place, so it looked like it just happened to me. I didn't realize until I had my own company how big a problem it could be," Swanson says.

In the early days of AdvR, all of the staff people were technical people. It soon became clear that someone needed to figure out the government accounting requirements. AdvR put technical people on the accounting problem, because that's what it had, but it was a waste of technical capabilities. In the meantime, the company searched for an accountant.

"We just couldn't find anybody with federal contract experience. There is a lot to learn with the government system—what indirect costs are, what's allowable and what isn't, whether you put a cost in this category or that category. It's a big learning curve for someone who hasn't done it before," Swanson says. Eventually a friend of Swanson's who is an accountant decided he was interested in working with Swanson and in learning the federal accounting system.

Given how long it took to find the needed accounting expertise for AdvR, Swanson made sure to have an accountant on board when he launched Resonon.

- Set up an advisory board. Swanson wanted accounting expertise on staff, but he also wanted access to other professional input on a periodic basis. His solution was an informal advisory board. Such a board can give small businesses the support they need without straining the budget.

Swanson's advisory board consists of a veteran business person, a top-notch scientist and a lawyer experienced in setting up high-tech companies. He periodically meets with them as a group, as well as one on one, to get their feedback on the big picture: how company

should be structured, what's its personality, how to avoid going down two mutually exclusive paths, and so on.

“Getting an advisory board set up early is important because, once you're off and rolling, there are a million things to do. Stepping back and prioritizing which of those million things you actually are going to do is a challenge. An advisory board can keep you focused,” he says.

3.0 Congratulations to the following SBIR award winners!

August Phase 0 Winner

Company: Quality Products of Montana

100 N. Johnson #7

Missoula, MT 59801

Voice: (406) 542-0950

Fax: (406) 543-1827

Phase 0 Title: Determine Viability of Using Pressure Sensitive Silicone Liquid Crystals as a Color Change Indicator When Impregnated into our Customer Designed Polypropylene Sterilization Zipper.

Target Agency: National Institute of Health

Principal Investigator: [Larry Larson](#)

Phase 1 Winners

Company: MPA Technologies, Inc.

910 Technology Blvd, Ste AB-8

Bozeman, MT 59715

Voice: (406) 585-8192

Award Amount: \$99,690

Principle Investigator: [Dr. Charles W. Spangler](#)

Target Agency: National Institute of Health

Phase 1 Topic: Multi-functional Dendritic Tethers for Biosensor Devices

Company: Montec Research

1902 S Franklin

Butte, MT 59701

Award Amount: \$135,000

Principal Investigator: [Dr. Todd McAdams](#)

Target Agency: National Cancer Institute

Phase 1 Title: Taxol Production with a Novel Fermentation Reactor

Phase 2 Winners

Company: [Ligocyte Pharmaceuticals, Inc.](#)

920 Technology Blvd, STE C

Bozeman, MT 59718

Voice: (406) 585-2733

Fax: (406) 585-2766

Amount: \$299,000

Principal Investigator: [Pati M. Glee](#)

Target Agency: National Institute of Health

Pase 2 Topic: Group B Streptococcal Peptide Mimetic Vaccine

Company: [Ligocyte Pharmaceuticals, Inc.](#)

920 Technology Blvd, STE C

Bozeman, MT 59718

Voice: (406) 585-2733

Fax: (406) 585-2766

Amount: \$517,000

Principal Investigator: [Jon O. Nagy](#)

Target Agency: National Institute of Health

Pase 2 Topic: Rational Design of Adhesion Blocking Anti-inflammatories

WE DO OUR BEST TO IDENTIFY EVERY AWARD WINNER, BUT WE MAY HAVE ACCIDENTALLY MISSED YOUR COMPANY. IF WE HAVE, PLEASE NOTIFY LINDA BRANDER (406) 841-2749 or lbrander@state.mt.us

4.0 Solicitations

| Open Solicitations | | | |
|--|---------------|-------------------|--|
| Program | Release Dates | Accepts Proposals | Closing Dates |
| HHS/NIH SBIR/STTR (Contracts) | 1 Aug 2002 | 1 Aug 2002 | 8 Nov 2002 |
| HHS/Trans-NIH SBIR PA (Grants) | 3 Jun 2002 | 3 Jun 2002 | 1 Aug 2002 1 Dec 2002 |
| Bioengineering Nanotechnology Initiative | 5 Jun 2002 | 5 Jun 2002 | 30 Aug 2002 |
| USDA SBIR | 1 Mar 2002 | 10 Oct 2002 | 22 Jan 2003 |
| NSF SBIR/STTR for BT & EL only | 15 Jan 2002 | 15 Jan 2002 | 1 Apr 2002 1 Aug 2002 1 Dec 2002 |
| HHS/NIH SBIR/STTR (Grants) Non-Aids Related Topics | 15 Jan 2002 | 15 Jan 2002 | 1 Apr 2002 1 Aug 2002 1 Dec 2002 |
| HHS/NIH SBIR/STTR (Grants) Aids Related Topics | 15 Jan 2002 | 15 Jan 2002 | 1 Apr 2002 1 Aug 2002 1 Dec 2002 |
| HHS/FDA SBIR (Grants) | 15 Jan 2002 | 15 Jan 2002 | 1 Apr 2002 1 Aug 2002 1 Dec 2002 |

For a complete overview of all solicitations go to: <http://www.zyn.com/sbir/scomp.htm>

5.0 State Conferences and Workshops

SBIR Phase I Proposal Writing Workshop, Jim & Gail Greenwood, nationally renowned SBIR consultants will be the presenters. Free. Must pre-register and space is limited. October 16, Missoula, MT, The Inn on Broadway, 9:00 AM to 4:30 PM.

SBIR Phase II Proposal Workshop, Missoula, MT, Jim and Gail Greenwood will be the presenters. Free. Must pre-register online. October 17, Missoula, MT, The Inn on Broadway, 9:00 AM to 4:30 PM.

Developing a Commercialization Plan for Your SBIR Innovation, Marcia Rorke, Mohawk Research Tucson, AZ, will be the presenter. Any individual or company that develops new ideas or inventions will benefit from attending this seminar. The focus will be on commercialization issues intended to optimize the technology in the marketplace. Cost: \$25. Must pre-register and space is limited.

- October 22, Helena, MT, 9:00 AM to 4:00 PM
- October 23, Bozeman, MT 9:00 AM to 4 PM

Cashing In on Your Idea - A practical, hands-on conference to help you go from innovation to commercialization. Participants who attend this seminar will learn how successful entrepreneurs cultivate innovation in their companies, and learn the techniques to think like an inventor, conduct the research to test the validity of the idea, and create a business plan to ensure success. Cost: \$25. [Register](#) online.

October 30, Miles City Community College, Miles City, MT 8:30 AM to 4:30 PM

Regional/National Conferences and Workshops

National SBIR Fall Conference, Burlington, VT, October 28-31, 2002. The National Science Foundation, in association with the Dept. of Defense, Small Business Administration, and all 10 SBIR agencies is sponsoring this National SBIR Fall Conference. Program Managers and representatives from all participating agencies will provide insight into how to work with their respective agencies and answer your own special questions during the one-on-one opportunities. Cost: \$325 before October 7, \$375 after October 7. To receive more detailed announcements about the national conference go to: <http://www.zyn.com/sbir/cal/index.htm#burlington>. October 28, 2002 to October 31, 2002, Shearton Burlington Hotel, Burlington, Vermont

State Science & Technology Institute 6th Annual Conference. Building Tech-Based Economies—From Policy to Practice. This conference will offer the best opportunity for practitioners and policymakers to assess where they've been, where they want to be, and the best strategies to get there. Cost: \$645. To receive more information and to register go to: <http://www.ssti.org/Conf02brochure.pdf>. October 2-3, 2002, The Ritz-Carlton, Dearborn, Michigan

6.0 Resources

[TR \(Federal Travel Regulation\)](#)

DCAA - [Contract Manual](#)

CFR - Code of Federal Regulation Title: [Federal Acquisition Regulation](#) (Title 48, Subpart 31.2)

Conversion model to adapt [QuickBooks Pro](#) for Federal Accounting Purposes

A review of SBIR [cost proposal basics](#)

More information can also be found at the [SBIR](#) agency web sites.